Williams, John Earl

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[From "OLD AND NEW" for November, 1873.]

A NEW YORK VIEW OF FINANCE AND BANKING.

BY JOHN EARL WILLIAMS.

"I AM right glad to see you, gentlemen of finance," said President Lincoln to a committee of bank presidents, "for I am so benighted that I have never yet found any one who could enlighten me on the subject of finance."

The case of our wise president was not singular, but quite common, whether others so frankly own it or not. So long as men indulge in mere speculations, or rely on antiquated financial theories, reason herself will be rarely consulted, or the principles of political economy heeded. Our only safe guides — history, experience, and simple truth — are liable to be overlooked. But the lessons they teach, with fair deduction from facts and careful observation, ought to lead to just conclusions.

On June 4, 1864, Congress passed an act "To provide a national currency, secured by a pledge of United States bonds, and to provide for the circulation and redemption thereof."

That act was substantially copied from "An act to authorize the business of banking," passed by the legislature of the State of New York, April 18, 1838.

It will be interesting to trace the origin of this last act, which was the first banking law of the world, so far as we know, which authorized the creation of banking associations, on the simple condition that the circulating notes of the same be secured to the people by a pledge of bonds and mortgages, deposited for that purpose in the bank department of the State. It was made the duty of said department to print and issue circulating notes to the several banks, when secured and registered in accordance with the requirements of the law. Such, in a few words, was the substance of the free banking law of New York.

ORIGIN OF THE BANK LAW.

The origin of the present complex system is a remarkable instance of the application of pure principle to practical finance. On the 17th February, 1827, Rev. John McVickar, D. D., Professor in Columbia College of Moral and Intellectual Philosophy, Belles-Lettres, Political Economy, and the Evidences of Christianity, wrote to a member of the New York Legislature a letter entitled "Hints on Banking."

In that communication of some forty pages, is foreshadowed the New York free banking law of 1838. It suggested: —

"1st. Banking to be a free trade, in so far as that it may be freely entered into by individuals, under the provisions of a general statute.

"2d. The amount of the banking capital of such individual or association to be freely fixed, but to be invested, one tenth at the discretion of the bank, the remaining nine tenths in government stock, whereof the bank is to receive the dividends, but the principal to remain in pledge for the redemption of its promissory notes, *under such security as to place the safety of the public beyond doubt or risk.*

"3d. The promissory notes of such individual or association to bear upon their face the nature and amount of stock thus pledged, together with the usual signatures."

The writer adds: "That these provisions would free banking from all abuses, it would be arrogance to assert; but that they would remedy many and great ones that now exist, seems to be unquestionable. Nor would their adoption be attended with the dangers which generally await untried novelties. They are *already established by the experience of other trades.*"

This last sentence shows the principle on which the question had been solved. It was not a groping in the dark, but a clear perception of vital elements known to be working in "other trades."

Now this letter was written in 1827 to an influential member of the Legislature; eleven years later, the seed thus sown matured, in the free banking law of 1838. That law contains not only the ideas, but almost the precise form of expression which is found in the letter.

Nor was the principle thus evolved confined to this State or country. In 1843–4, when Sir Robert Peel proposed to Parliament his amended charter of the bank of England, security for the bank's circulating notes was not lost sight of.

Under the new charter of 1844, the issue department was separated from the discount department of the bank, and the duties of each defined.

But here, again, we find Professor McVickar three years in advance of the British statesmen. In the year 1841, in his "Review and Criticism of the Bank of the United States," the Professor shows the practicability and necessity of having the issue of circulating notes independent of the discount department; and he proposed that it be under the charge of a board of governors, while the other parts of the bank should still be managed by the directors.

Here is a great principle enunciated, namely, that no bank ought to be allowed to supply a circulating medium to the public, *not secured outside of the bank, and independent of it;* and also one other feature, that of the *separation of circulation from the discount department.*

To a practical man of business,—an every-day banker,—it seems wonderful that a scholar, investigating questions in political economy, on purely scientific principles, should be able to see, not only the practical workings of existing laws, and understand the indissoluble relations of money and trade, but should also be able to foresee and foretell what changes were necessary to produce the highest prosperity and secure the greatest safety to the community.

Without claiming that this fundamental principle was *only* discovered and put in practice in this country, we can and do say that it was first promulgated here, and practically adopted, some years before it was engrafted on the charter of the Bank of England. We have borrowed from Europe, it is true, much in law and literature, and somewhat in religion, that was worth the having and the careful keeping. In banking, however, England is our debtor. We have not only supplied her, and the world, with the safeguard of the law of 1838, but we have done for the safety of the public what she has not, in making the separation between the discount and issue department *absolute* and *irrevocable.* It is impossible for the banks of this country, of their own motion, to increase the volume of their circulation. But not so of the Bank of England. Three times, since

1844, the charter has been violated by an illegal issue of bank-notes to meet commercial emergencies which recognized no chartered limits; necessity imperiously demanded it, but a necessity that knew no bank law, cared for no bank restriction. Specie lost its saving power. But timely, liberal discounting,—not in accordance with law,—and a generous issue—an over-issue—of Bank of England notes, saved the community from commercial bankruptcy. Such irregularities Parliament wisely legalized by subsequent statutes. And such-like events will happen again; for so long as commerce is subject to perturbations (as it always will be, under specie and a convertible paper currency), seasons of extraordinary pressure will come, and demand speedy relief. The source of relief being fixed and determined, help can only come, in season, by disregarding the limitations imposed on the bank.

This statement, though brief, may serve to show some advantages of our financial system, at least for us, over that of the Bank of England.

It may be more profitable, and is certainly more modest, to look after the defects in our own institutions, rather than point out the shortcomings of others.

The present banking of this country—for most of the State banks are wound up—is conducted under authority of the law of Congress, passed June 4, 1864, "to provide a national currency," etc.

Much complaint is made, when there is a stringency in the money market, against the law which requires a reserve of twenty-five per cent from city banks, and fifteen per cent from country banks, on the aggregate amount of deposits and circulation. As a remedy, *free banking* is asked for, and a repeal of that section of the bank law which provides for a *reserve.*

Free Banking.

Free banking:—what would it amount to but the re-establishment of the old "wild-cat" banking that prevailed in New York five-and-twenty years ago? That was an abuse of the banking law of the State, which failed properly to restrict and define the terms on which individual banks might be formed. Practically, it was simply this: half a dozen persons would put their hundred thousand dollars into United States bonds or other required securities, lodge them in the bank department at Albany, to create a free bank! Locate the bank in some obscure place, take out the circulating notes, loan them to brokers in Wall Street at the highest rate (drawing interest on their bonds at the same time), and thus secure double interest for their investment, under the name of banking! This would be done now if free banking were authorized. In short, such authority would encourage commercial piracy on legitimate banking! The public would be not a whit the better off for the operation, while the currency would be inflated without any controlling power on the part of the government.

So great had this evil become, five-and-twenty years ago, that a bank was organized in New York city, in 1851, for the avowed purpose, among other things, of doing for that and the neighboring States, what had been done in New England, many years before, by the Suffolk Bank, at a time when banks were not restricted, as they now are, in circulation, consequently were tempted to issue more than they could redeem. This state of things gave rise, fifty years ago, to the so-called "Suffolk Bank system." It was needed then, it would be worse than useless now; for there is no occasion to absorb and send bills home for redemption.

The experiments so far succeeded in the New York Bank, that between thirty and forty of the individual banks of circulation, or as they were called, in the language of the day, "Wild-Cat Banks," were called on to pay their bills, and consequently obliged to wind up. This, in the course of two or three years, purified the atmosphere of Wall Street, and gave to regular business banks circulating notes for legitimate trade.

Away, then, with the so-called free banking! It is a delusion, a mere sham, suggested without understanding at all the disastrous consequences that would flow from it. It is a retrograde, rather than a progressive movement, — asking for a law to authorize the creation of machines for grinding out circulating notes, for the use of Wall Street operators, and not for the benefit of the trading community, or the promotion of any legitimate business interest.

Bank Reserve.

The other remedy suggested, to wit, the modification or repeal of the legal provisions which fix the reserve now required of national banks on deposits and circulation, demands more serious consideration.

There ought to be cogent reasons in favor of a policy that takes from the volume of circulating medium of the country some one hundred and fifty millions, and locks up such an amount in the shape of bank reserve! All other locking up (so justly complained of) is trifling in amount compared with this enforced withdrawal of currency in the form of bank reserve. But there certainly is good reason for requiring that a certain percentage of bank deposits should be kept on hand, at all times, either in United States notes or bank-notes, in order to be prepared to meet the demands of depositors. Otherwise, the natural tendency would be to make imprudent, excessive loans and discounts, thereby unduly impoverishing the bank for the sake of large profits. No one ought to object, therefore, to a reasonable reservation of ready funds to ensure prompt payment of deposits. Experience will show whether the present requirement of twenty-five per cent is in excess, for city banks, or not.

It has been suggested in Washington, that it may be advisable to reduce the amount of reserve held by banks from October to April — six months — to ten per cent for the country and fifteen per cent for city banks, in order to meet the autumn demand for currency to move the crops. This is certainly a very important suggestion, and, by adding to bank facilities when most wanted, would afford great relief to the community. The cities especially need, at that season of the year, all the help they can obtain to meet the pressure that naturally comes to the money centres. Keep the centres freely supplied, and relief will soon find its way to the extremities.

On the other hand, there seems to be no reason for that part of the reserve which applies to *circulation.* These notes are secured to the public by a deposit of United States bonds in the department at Washington (one hundred dollars of bonds for every ninety dollars of bills); also,

by the bank capital and surplus; further, by a legal right to call on the stockholders for an amount equal to the sum already paid in; and finally, they are secured by an absolute guarantee of the United States. In the name, then, of safety itself, is not this security enough, without adding twenty-five per cent of dead-weight in the shape of reserve, especially when no redemption is called for or expected? If a repeal of the law requiring reserve or circulation were conceded, the public would be relieved to the extent of about fifty millions of dollars. Such a change would give the banks for immediate use that amount, which is now useless to the trading community, being locked up for no practical purpose.

Endorsement of Government.

By the way, it may well be doubted whether the last form of security specified — the unconditional promise by the United States to pay all national bank notes (see section forty-seven of the National Bank Act) — is justifiable, or properly within the scope of the powers of the general government. For, why should the people of the United States, by its general government, be called on to pay a bank-note any more than the note of an individual?

It seems very like an unnecessary display of generosity. The bonds of the United States are presumed to be all-sufficient. But whether they are or not, it does not become necessary for the government of the United States to lend its credit by a guarantee to the extent of three hundred millions of dollars without any consideration whatever!

Suppose, what is not impossible, that in case of war, and reduced income from all sources, the United States should want all its credit and all the means it could command. Would it be desirable, under such circumstances, to have fifty millions of bank circulation to take up? True, the United States bonds could be offered for sale, but what price would they be likely to bring when it became known that a hundred millions more, by bank failures, might be forced on the market? Thus the Government might not only use up its ready money, but cripple its credit, when most wanted for public defence. Perhaps ten years hence, when the extension of the National Bank act is discussed, this will be duly considered and remedied.

In connection with the subject of reserve, it may be well to consider the limitation now prescribed by law as to the kind of notes which must constitute the reserve. It declares that only United States notes shall be counted in the reserve. Now this is always troublesome, and at times vexatious. If banks were allowed to count national bank notes, or United States notes, or both, in their reserve, the banks would be just as strong and the public quite as safe.

The Bank Act, Sec. 32, provides, "That every association formed or existing under the provisions of this act shall take and receive at par, for any debt or liability to said association, any and all notes or bills issued by any association existing under and by virtue of this act."

Such an arrangement would abolish the strife among banks to hoard legal tenders, in order to preserve their reserves. It would be calculated to enhance the value of the franchise of National Banks. It would tend to prevent, by giving them a wider use, the accumulation of National Bank notes, at certain seasons of the year, when, being too plenty, they are lent to brokers, on railroad bonds and stocks, at rates of interest so low that it fosters speculation. This becomes almost a *necessity* with banks that pay interest on deposits. Yet it is pernicious in the extreme, and a fruitful source of unavailable loans. City banks would surely experience much relief if authorized by law to reckon in their reserves, notes of national banks, as well as legal tender notes. Then, as a matter of course, the balances would be settled at the clearing-house in either or both kinds.

It hardly seems possible that there can be any reasonable objection to this slight concession. The bank notes are as safe as United States notes; and as both are secured by every dollar of property in the country, why should there be a distinction? Indeed the law, as we have seen, by express provision, contemplates no discrimination against National Bank notes, but requires that they be received by banks for any debt at par.

The clearing-houses of St. Louis and Chciago have already adopted this enlightened view, so far as settlement of balances is concerned, — paying and receiving either United States or National Bank notes, or both.

Specie Payments.

Specie payments is a theme discussed every day in the week. In a matter-of-course sort of way, it is dogmatically announced, "We must resume specie payments!" Some people, from habit perhaps, seem to have a sort of hankering for a little bright gold dollar, or a big shining half one! They talk as if there were saintly virtue in the precious metal, and the basest depravity in the greenback — though guaranteed by all the wealth of the nation and honor of the people. Such men do not see that their wishes, carried out, would surely produce financial chaos. For the history of our own country teaches us that all the monetary troubles, panics, prostration of commercial credits, and destruction of trade, are fairly chargeable to specie! Specie and convertible bank-notes are the elements of danger! The last thing to be desired is a resumption of specie payments, on the old, exploded "European plan." This nation can stand anything but that, — fire, famine, or sword, — and fortunately the good sense of the mass of our people is likely to save us from the disastrous experiment. Indeed, it would be extremely difficult to get up a general panic among our merchants and traders, such as we have formerly had, when there is none of the old stuff to make one out of. True, you may have wild raids on stocks; the bulls and bears may devour each other, destroy fancy stocks, and incidentally reduce the price of even sound-investment ones. They may create, as they recently have, an excitement which, under a specie-paying regime, would have caused all the banks to suspend. But not so under the present system, for every one would know he could not rush upon the banks for specie, and under any conceivable circumstances he would be sure to get paper with which he could legally pay his debts. The incipient panic therefore stops short of a great commercial disaster, and is comparatively harmless.

It is not pretended that under the present or any conceivable scheme, men cannot betray trusts; mismanage banks and savings banks; occasion

ally, too, get up big frights by an over extent of credits. But what is contended for is this: that no general prostration of mercantile credits, such as we had in 1837 and 1857, has taken place within the last ten years; morever, that it is nowise probable, scarcely possible, that such frightful panics should occur in non-specie-paying times. And this is a boon not lightly to be regarded.

Formerly, the export of a few millions of coin more than had been expected alarmed the banks, frightened the merchants, and brought on a general crisis in the affairs of men. A few months elapsed, and every one saw the alarm was unnecessary, and could never have come upon the people but from a nervous dread that certain or uncertain apprehended disasters might lead to a suspension of specie payment. Then, when the mischief was done and the losses incurred, all saw that fear of the loss of specie had been a bugbear.

It ought to be remembered, too, that then no such financial power existed in Wall Street as shows itself in these days. Who can doubt that if the banks were nominally paying specie now for deposits and circulation (and it was *only nominally* they ever paid), that "the powers that be" in Wall Street would break them as often as they pleased? There is no doubt a larger accumulation of ready capital now in New York city outside of the Banks than inside; and it is so at all times when business is active. This capital, to a large extent, is used to manipulate prices; to buy gold, currency, or stocks, for "a corner," — as it is termed, — and disregardful of legitimate business and the best interests of society. This capital will continue to be so used, when occasion offers, or opportunity can be seized, to create an artificial demand for money. This done, one or two days' interest, or shares at exorbitant rates, will compensate the lender for keeping his money, perhaps thirty days, without having used it.

England's Example.

England is often quoted to show how easily we too could come to a specie basis, by following her example. Such people are careful not to refer to the history of England, when they speak in laudatory terms of her, and disparagingly of their own country. The Bank of England suspended specie payments in February, 1797, and did not resume till May, 1821! More than twenty-four years of suspension; whereas, this country has had a breathing-spell of scarcely half as long! Thanks to the wisdom and statesmanship of such men as Pitt and Sir Robert Peel, the unwise attempts at premature resumption were defeated in Parliament whenever attempted, as was several times the case.

By a suspension of twenty-odd years that country had a chance to recover, after the long and exhausting Continental wars, in which, as England had but few men to spare, she contributed largely in bullion. The government knew that England's true policy was, to make gold so dear that other nations dealing with her would take her manufactures, the products of her skilled labor, and thus enable her to become the creditor instead of the debtor nation of the world. All this, and much more, without the use of gold or currency, or of even convertible paper! And, without special act of Parliament, the notes of the bank, by common consent, were received by the government and people as legal tender for all indebtedness.

This paper-money period in England's history may be regarded as more prosperous than any other of equal duration. Although a serious panic was embraced in that period, which originated in the reckless misconduct of joint-stock banks, still capital was accumulated and skilled labor acquired as never before. And it is worthy of remark, that this growth and prosperity were accomplished with paper currency as a medium, which other nations could neither contract nor expand. The example of England, then, and the success attending her prolonged suspension of specie payments, should teach and encourage us to persevere in the same wise financial policy.

Our Currency.

Our currency is for ourselves. And it has been truly said, "In paper money we have the cheapest currency substituted for the dearest." Europeans need not touch it. It is matter of congratulation, and an element of safety, too, that it is beyond any disturbing foreign influence. It is our country's life-blood, designed to circulate from centre to circumference. Nor is the volume of currency excessive, but rather too small than too large. It has to supply the wants of a country three thousand miles in extent, containing a population of over forty millions, actively engaged in business. It is proper, too, to consider, that out of the amount of existing United States and national bank notes, — in the aggregate six hundred and fifty millions, — there should be deducted about one hundred and fifty millions locked up as bank reserves. Leaving, say, of both kinds, in circulation,

		$500,000,000.
Now the State bank-note circulation before the war may be set down at	$260,000,000	
Add specie, at least,	80,000,000	
		$340,000,000
Present excess over old circulation,		$160,000,000

[See note at end.]

Some of the causes of an increased demand for currency, within the last twelve years, may be thus stated: —

Opening of the railway to the Pacific Ocean.

Foreign and domestic emigration West.

Hoarding of currency and its ordinary use in Southern States.

Enhanced price of nearly every commodity in market.

Can any one doubt that the foregoing statement, though showing a nominal increase in currency of $160,000,000, exhibits, also, an actual, comparative *decrease* in the volume, when considered in relation to the enlarged business and growth of population? This is seen, also, after every effort, in the short crop of currency to move a long crop of wheat this autumn.

Notwithstanding this deficiency in the volume of our currency, — so easily demonstrated,— sensible, honest men still talk, in a loose way, of the need of returning to specie payments, and lessening our paper money, as if that would not inevitably enlarge and aggravate every financial evil.

The simple truth is, the whole treasury reserve of forty-four millions dol-

lars (balance of the old 400,000,000) legal tenders, ought to be paid out, and kept out, by the secretary of the treasury, in order to restore at least to that extent the equilibrium of our national currency. We must protect *our own* purchasing and selling medium, and see that we have enough for home use.

As for "balance of trade," — any indebtedness to Europe, — *that* can be paid either in gold, one of the products of our land, or in wheat, pork, butter, petroleum, naval stores, tobacco, or cotton. These are all now commodities with us which can readily be equated in any European market.

If, however, none of the foregoing articles happen to suit our foreign customer, it is not at all improbable that a very few years will suffice to add iron, perhaps coal, to the list of exchangeable products. The "London Times," on a recent editorial on their iron trade with this country, draws a gloomy picture of England's future in this particular; and even now, at this writing, report reaches us of the sale of one hundred tons of American iron in Liverpool.

May we not expect, then, with persistent effort, sustained by a consistent protective tariff, to supply the world from our "iron mountains" and unlimited coal-fields, with iron and steel, even as we now do with cotton? This may seem like boasting. Wait a little while — it may prove to be prophecy; yet a little longer, and it may become history.

It must be observed, too, that the increase in our population, foreign and domestic, and rapid growth in business throughout the entire country, has worked a steady, practical, *comparative* reduction in currency, *per capita*, inasmuch as the volume of circulating notes has remained the same, with the exception of a reduction by the withdrawal of forty-four millions, in a futile attempt to prepare for resumption of specie payments.

It is a fortunate circumstance, perhaps, that the secretary of the treasury keeps the control of this fund; so that in an emergency sufficiently pressing, he can come to the relief of the public, and head off reckless speculators. May not these legal tenders be used, most beneficently, as the Bank of England, without express law, uses her extra notes, to *prevent panics?*

Increase of Currency.

This leads us to consider whether some *timely* provision ought not to be made by Congress to secure the full benefits of our present system for future years. Not by a diminution of its volume, — for we are getting to the specie point quite fast enough, — but, on the contrary, by a gradual *increase* to meet the growing wants of the country. A careful statistical investigation ought to be made, to determine what would be an adequate annual addition. It may be that ten per cent added every five years (equal to two per cent annually) might be sufficient to meet the increased demand from population and business. Let us, by all means in our power, sustain a currency that will not, like specie, convulse trade and all the productive industries at every turn of the metallic screws!

It is quite remarkable that during the recent stock raid, or brokers' panic, in New York, a prominent bank bullionist confessed that the whole trouble arose from the fact that we have not legal tenders enough to do the business of the city! Experience and a wholesome pressure had served to enlighten one who seemed wedded to a theory. He struck the key-note, however, of the whole derangement of financial affairs. The volume of currency needs to be increased, and what we have, better adjusted, so as to make it more available in autumn. At present, our wealth in currency is not equal to our wealth in wheat. The largest cereal product ever known has called for and taken an extraordinary amount of currency, more than the banks could well spare on so short notice. The banks in New York, since the middle of August, have sent out, principally to Chicago and Milwaukee, ten to fifteen millions of currency. This drained the city, and made it imperative on the clearing-house to issue certificates to facilitate the banks in their clearings. That done, the panic collapsed. In the end, the operation will of course enrich the city and the country. For the crop is not only large beyond precedent, but the foreign demand is strong for all we can spare, at remunerative prices. This stimulates the call for currency, and the desire to get grain to the seaboard; consequently it has, temporarily at least, created a *currency famine*, and yet without any pressure or scarcity of money among merchants.

The cotton crop, which comes next, is larger than ever before — nearly or quite four million of bales. At least half of that will go to Europe, and the call from that quarter will soon be in order.

It is our substantial wealth, then, that makes us currency-poor! The country is richer to-day than it ever was before. It will be richer to-morrow than it is to-day.

The convenience and advantage of this paper currency can be seen, if we look for a moment at the dilemma we should be in, were *specie* — heavy-footed, cumbrous, expensive specie — to be called on to do this immense work of purchase, exchange, and transportation. As reasonably expect the exploded telegraph balloon to do the work of the magnetic telegraph! We have left the "iron age" behind, and substituted the iron rail!

"Elastic End."

An important problem connected with the circulation is yet to be solved. Specie cannot supply the want, nor assorting houses or clearing-houses remedy the evil. It applies equally to legal tenders and to bank-notes, because the entire circulating medium throughout the land suffers from the same cause.

At certain periods of the year there is an increased demand for currency. About the middle of August, of late years, the West first calls for aid to move their cereals and pork to the seaboard. Later in the season, the Southwest and the South ask for help to get their tobacco and cotton to markets, at home and abroad.

All the Atlantic cities are called on, and especially is New York city, to remit hundreds of thousands in currency, daily, to Chicago, Milwaukee, St. Louis, and Cincinnati. So regular and uniform has this become, that it is looked upon as the normal condition of things, when trade is active and healthy. No one need dread it, then, for it indicates good markets and good prices. Money, however, becomes active, scarce, and high under these influences; while at other seasons of the year — for three months, from the

middle of May to the middle of August — money is cheap and currency super-abundant; speculation becomes rife, with a dearth of legitimate business; and disastrous investments spring out of cheap money, easily obtained.

This rotation in the circulation is both regular and salutary. The bills go West and South, perform their wonted work in purchase and sale, then wend their way East again, to liquidate purchases made by those of the West and the South.

The orbit is definite; but the rate of movement is dependent, not only on railroads and expresses, but also on the financial ability of the West and the South to keep in their own hands more or less of their yearly product, in greenbacks, for manufactures or general uses at home. Here one is tempted to ask, What possible benefit would arise to any one, if these notes were seized when they reached New York, assorted and sent home for so-called redemption in greenbacks or coin? This idea assumes an excess in quantity, and involves a useless and expensive journey.

Now, the *want* growing out of this fixed system lies in this: that for three months, in spring and summer, currency in New York city is in excess of the demands of a sluggish, depressed market.

Five years and more ago, a remedy was suggested to one of the New York senators, which, had it been adopted, there is good reason to believe, would have proved an effective cure for the evil. The plan was simply this: Congress to authorize the creation of a commission, in New York city, to consist of three persons, — say the United States assistant treasurer, a merchant, and a banker. This commission to have power to issue a United States convertible bond, bearing four per cent interest, in currency, and to receive in payment therefor either United States notes or National Bank notes. Said bonds to be reconvertible into such currency, at the option of the holder, and paid with accrued interest. To be again issued, whenever the said bonds were called for, on the same terms, and again redeemed in like manner.

It will be seen at a glance that this would create what in semi-slang phrase has been called, "An elastic end to the currency." For the effect would be, practically, *to keep the general market price of money at a point above four per cent.* The United States bonds being the best attainable security, would prevent the rate from going below that.

As soon, then, as the demand set in for currency at the beginning of the fall trade, the bonds would go in and the currency come out, and the volume thus be swollen to meet the wants of the public *without diminishing the resources of the banks;* but, on the contrary, *adding just so much* to carry on the enlarged business of the country without leaving the public to depend entirely on the moneyed institutions.

It may be objected that the United States would hardly be ready to pay four per cent interest for money they did not want and could not use. But the answer to that is obvious. The government is instituted for the benefit of the governed, not for the benefit of the government. And surely, if the welfare and steady growth of the whole people can be promoted by the payment of a low rate of interest on twenty or thirty millions for three months in the year (remember that the government is circulating over three hundred millions *without interest* the whole year), so small an outlay would be more than justified to secure so large a return in convenience and profit to all parts of the country. It would be to the important machinery of currency, what the "governor" is to the steam-engine, — a controlling balance power! And may we not reasonably hope that Congress would gladly perfect the governmental scheme of a national currency by supplying a remedy most sorely needed?

NOTE: A clearer statement of the condition of our circulation than that in page 8 of the text is as follows: —

The present and the past circulation may be thus stated:

Present Circulation.

Legal Tenders, 356 millions; Bank Notes, about 344 (omitting, for brevity, fractional)		$700,000,000
Less Bank reserve, locked up in Banks, say		150,000,000
Would leave present circulation		$550,000,000

Former Circulation.

The Bank Notes of the several States before the War may be set down at	$240,000,000	
Add Specie in circulation, estimated by the Mint at 300 millions, by the Treasury at 275, to be about half	150,000,000	
		390,000,000
Excess of present circulation, over that of 1861		$160,000,000

In other words, the circulation twelve years ago, was at least 390 millions; it is now shown to be 550 millions only.

3725

END OF TITLE